

Newspaper: Providence Journal

Date: May 8 2007 A-1

Lender loses role offering loan advice

Page 1
of 2

The Rhode Island Student Loan Authority decides it's inappropriate to have one of the nation's largest college loan firms running its College Planning Center.

BY JENNIFER D. JORDAN
JOURNAL STAFF WRITER

WARWICK — The nonprofit Rhode Island Student Loan Authority's board voted unanimously yesterday to take back its College Planning Center from one of the nation's largest private, for-profit lenders, Nelnet, saying the move would eliminate "the appearance of impropriety."

The board also adopted a code of ethics to guard against unethical or questionable practices, said Anthony J. Santoro,

board chairman.

"These are some rather difficult times for private lenders and public confidence has been shaken," Santoro said at an emergency 8 a.m. meeting held at the authority's headquarters. "We wanted to protect a very valuable resource for Rhode Islanders, but we did not want to create at least the appearance of impropriety."

Santoro said RISLA wanted to take back the College Planning

SEE **LOANS, A9**

Loans

Continued from Page A1

Center in order to expand its offerings. He said the board had been discussing the issue since last fall, and had also started to talk about establishing a code of ethics. In fact, both topics were scheduled for a vote at the board's regularly scheduled May 18 meeting.

However, the authority's arrangement with Nelnet's Rhode Island subsidiary, the New England Student Loan Authority,

came under fire last week, which sped up the vote. General Treasurer Frank T. Caprio, who sits on RISLA's board, called on RISLA last Thursday to take back the planning center, which offers free information to students and parents, particularly about college loans. Letting a private loan company staff the center since 2004 created "a potential conflict of interest," Caprio said.

At yesterday's meeting, Caprio said he was pleased the center would return to RISLA, where it began almost a decade ago as a free service to help students and their families navigate

"We need full transparency as to who is staffing and paying for the College Planning Center. When an entity can use the goodwill of the State of Rhode Island, there cannot be even an appearance of a conflict of interest."

FRANK T. CAPRIO

General Treasurer

the maze of the college application and financial-aid process. The board also decided to "build a wall" between the center and the loan business by having the director of the center report di-

rectly to the board, instead of to RISLA itself.

"We need full transparency as to who is staffing and paying for the College Planning Center," Caprio said. "When an entity can

use the goodwill of the State of Rhode Island, there cannot be even an appearance of a conflict of interest."

RISLA'S DECISION COMES at a time when the aggressive business approaches of Nelnet, Sallie Mae and other private college lenders have come under intense scrutiny by Congress and various state governments, which have launched investigations into unethical or questionable practices.

These include paying colleges fees for securing a place on the preferred lender list, offering

college officials stocks and other gifts, and staffing college financial-aid call centers without telling student callers they are speaking to a representative of a private lending company.

However, RISLA and Nelnet's New England Student Loan Authority said those practices were not occurring in Rhode Island.

"It may be that Nelnet has sinned elsewhere, but they haven't sinned here," Santoro said. "In fact, they've saved us a lot of money."

Santoro said that Nelnet is allowing the College Planning Center to give free SAT preparation software to 12 Rhode Island high schools. In addition, Nelnet has saved RISLA about \$500,000 by leveraging better rates on auction-rate bonds, which finance the loans, said Noel F. Simpson, RISLA's executive director.

Nebraska-based Nelnet came to Rhode Island three years ago, eager to do business in the lucrative southern New England college market.

In a complex \$13-million deal approved by the state, RISLA agreed to sell the private company \$175 million worth of the authority's \$800 million in student loans for \$5 million. RISLA also sold its future federal Stafford student loans to Nelnet for 10 years for another \$8 million. In addition, RISLA contracted with Nelnet to originate and market private loans. Last year, RISLA paid Nelnet about \$1.5 million in loan origination fees.

Since 2005, RISLA's loan volume has grown to \$513 million and Nelnet's New England Student Loan Authority's loan volume has reached \$424 million, Simpson said.

Most of RISLA's employees — 22 out of 25 — were also swapped in the deal and promised jobs for three years. These include Charles Kelly, named the executive director of the New England Student Loan Authority, and David DeBlois, head of the College Planning Center, and six part-time employees who help run the center, which is located at the Warwick Mall.

Nelnet promised to operate a loan business in Rhode Island for 10 years and agreed to give \$50,000 a year to scholarships for 10 years.

Because RISLA turned over so much of its student loan business to Nelnet, the authority was concerned it would no longer be able to afford the center and did not want to deprive Rhode Island students of its services, Santoro said. So RISLA asked Nelnet to run the center as part of the deal. But RISLA has been paying Nelnet \$300,000 a year, roughly the cost of the salaries for DeBlois and the part-time employees.

"It's now clear to us we can afford it," Santoro said. "We want it back."

RISLA now plans to hire back DeBlois and the part-time staff. Simpson said this would happen "no later than July 1." RISLA also wants to expand the College Planning Center's services to more locations across the state and reach out to middle and elementary school students.

DEBLOIS DEFENDED the College Planning Center yesterday, saying he and his staff do offer unbiased advice to students and parents and do not unfairly push Nelnet loans.

"We do not recommend any loans. Instead, we tell them, 'this is what your state agency offers,'" DeBlois said. "They may call any lender they wish and compare those rates to other lenders." The center's staff also lets students know about special interest rates and loan forgiveness programs RISLA offers to student nurses, teachers and pharmacists.

RISLA offers a good deal to Rhode Islanders. Instead of paying the federal interest rate of 8.5 percent for a federal PLUS loan for parents, for example, RISLA customers pay 7.5 percent, and that drops to 6.5 percent if the parent pays automatically from a checking account, DeBlois said.

For federal Stafford loans, an origination fee is waived for RISLA customers, and the interest rate drops by 2 percentage points if the student pays on time for 36 months. RISLA's current Stafford interest rate is 6.8 percent.

"Technically, we still offer the same terms [as before the deal with Nelnet], and the borrowers benefit," DeBlois said.

The difference since 2004 is that Nelnet owns the Stafford loans, so it benefits also.

Page 2
of 2